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No. 05-608

IN THE

Supreme Court of the United States

MEDIMMUNE, INC.,

Petitioner,

v.

GENENTECH, INC., *et al.*,

Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE AMERICAN BAR ASSOCIATION AS AMICUS CURIAE SUPPORTING RESPONDENTS

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Amicus will address the following questions:

1. Whether the holding of *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969), is limited to validity challenges by repudiating patent licensees and therefore preserved licensee estoppel in validity challenges by nonrepudiating patent licensees.

2. Whether Article III permits a patent licensee to obtain a judicial determination of the merit of an invalidity counterclaim that the licensee could assert if the licensee (a) repudiated the license agreement, (b) infringed the patent, and (c) were sued for infringement by the licensor.

3. Whether, if licensee estoppel would bar a nonrepudiating patent licensee from suing to invalidate the licensed patent, a federal court should decline jurisdiction over such a suit on equitable and prudential grounds.

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INTEREST OF AMICUS[1]

The American Bar Association is the voluntary, national membership organization of the legal profession. Its more than 407,000 members, from every State and territory and the District of Columbia, include prosecutors, public defenders, private lawyers, legislators, law professors, law enforcement and corrections personnel, law students, and non-lawyer associates in allied fields. Since its inception in 1878, the ABA has promoted improvement of the administration of justice.

At its June 2006 meeting, the ABA's Board of Governors adopted as policy the Federal Circuit's rule that a nonbreaching patent licensee should not be allowed to challenge the validity of the licensed patent. The Board adopted this policy on the recommendation of the Section of Intellectual Property Law, the world's largest intellectual property organization, whose 19,000 members reflect a broad cross-section of the patent bar.[2]

The ABA submits this brief to advise the Court of equitable and prudential considerations that support the Federal Circuit's rule. The ABA submits that a district court, on the basis of these considerations, should decline jurisdiction over validity challenges by nonbreaching licensees,

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[1] The parties have consented to the filing of this brief. No party authored the brief in whole or in part or contributed monetarily to its preparation or submission.

[2] Neither this brief nor the decision to file it reflects the views of any judicial member of the ABA. The brief was not circulated to any member of the Judicial Division Council before filing, and no member of the Council participated in the adoption or endorsement of the positions taken in the brief.

and that the Court therefore need not decide in this case whether Article III compels that result.

SUMMARY OF ARGUMENT

The Court granted review to decide whether a challenge by a nonbreaching patent licensee to the validity of the licensed patent meets the case-or-controversy requirement of Article III, as implemented by the Declaratory Judgment Act. The ABA respectfully submits that such a challenge does not meet that requirement, but also that the Court need not decide that constitutional question here. As an equitable and prudential matter, a federal district court should decline jurisdiction over such challenges based on the doctrine of licensee estoppel, whether or not an Article III case-or-controversy exists.

I. Although the Court in *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969), broadly rejected the doctrine of licensee estoppel, the facts of the case did not require the Court to do so, and the Court's broad rejection of the doctrine produces unfortunate, if unintended, consequences. The Court's holding was correct on the facts of the case; this case presents an appropriate opportunity to limit the reasoning of the decision. On its facts, *Lear* properly stands for the proposition that a patent licensee may, *upon repudiation of the license*, contest the validity of the licensed patent. As the Federal Circuit's decision suggests, *Lear* should not be read to permit a non-repudiating licensee, like Petitioner, to contest the patent's validity.

II. The Federal Circuit's conclusion that this case does not present an Article III case-or-controversy is consistent with *Lear*. First, whether under the doctrine of licensee estoppel, or for the other reasons stated by Respondents, Petitioner is not entitled to challenge the licensed patent. As long as Petitioner complies with the license agreement, it has no judicially cognizable right to assert. Second, Petitioner is not suffering injury. Petitioner was not compelled to enter into the license agreement and is not

compelled to continue to perform under the agreement. Petitioner's only "injury" is its uncertainty about its potential legal exposure if it repudiates the license agreement but continues to practice the licensed invention. That is an everyday question for which businesses seek the advice of attorneys, not Article III courts.

III. Considerations of practicality and the wise administration of justice counsel that a district court, as an equitable and prudential matter, should decline jurisdiction in a case like this. A rule allowing a non-repudiating licensee to challenge the licensed patent would be contrary to the aims of the Declaratory Judgment Act, federal patent law and policy, and prudential standing principles. Such a rule would permit the licensee to challenge the patent while simultaneously enjoying its benefits, protected by the license from an infringement action by the licensor and competition by non-licensees. Moreover, such a rule would discourage, not promote, challenges to invalid patents. Licensors would insist that licensees agree in the license not to challenge the patent during the term of the license or while the licensee remains in good standing, or require licensees to make front-loaded, non-refundable royalty payments. At worst, such a rule would undermine the statutory goal of encouraging innovation and invention by discouraging patent licensing.

ARGUMENT

I. *LEAR* SUPPORTS THE FEDERAL CIRCUIT'S RULE.

In *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969), the Court held that a licensee that had repudiated its licensing agreement was free to contest the validity of the licensor's patent. In doing so, however, the Court rejected, as "inconsistent with the aims of federal patent policy," the doctrine of licensee estoppel itself. *Id.* at 673. But the facts of the case did not require the Court to reject the doctrine.

Accordingly, although Petitioner argues that *Lear* cannot be reconciled with the Federal Circuit's rule in this case, *see* Pet. Br. 36-38, a review of the doctrine of licensee estoppel and a careful understanding of the true holding of *Lear* demonstrate that Petitioner is mistaken.[3]

At common law, the doctrine of licensee estoppel prevented a licensee from simultaneously challenging a patent's validity and practicing the invention under the protection of the license. A licensee who repudiated the licensing agreement, however, was free to defend an action for post-repudiation royalties or infringement on invalidity grounds. Thus, even in the absence of a valid termination of the licensing agreement, a licensee could set up a validity challenge.

A. *Lear* Correctly Rejected Licensee Estoppel in the Case of a Repudiating Licensee.

Lear involved a suit for royalties by licensor Adkins after licensee Lear refused to pay royalties under the terms of the parties' licensing agreement. *See* 395 U.S. at 659. Lear defended based, in part, on the asserted invalidity of Adkins' patent. *Id.* at 660. The California Supreme Court held that, "[u]nder the doctrine of licensee estoppel, Lear [is] prohibited from challenging the validity of Adkins' patent" because, although Lear had stopped paying royalties, he had not "validly terminated" the agreement pursuant to its terms. *Adkins* v. *Lear, Inc.*, 67 Cal. 2d 882,

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[3] The development of the common law doctrine of licensee estoppel, and the doctrine's relation to *Lear*, are reviewed in William C. Rooklidge, *Licensee Validity Challenges and the Obligation to Pay Accrued Royalties: Lear* v. *Adkins Revisited, reprinted in* ROGER M. MILGRIM, MILGRIM ON LICENSING app. 8D.

899 (1967). It was this ruling, and only this ruling, that the Court reviewed and reversed in *Lear*.

Although the Court broadly articulated its holding, appearing to reject the doctrine of licensee estoppel *in toto*, what the Court necessarily rejected in *Lear* was only the version of the doctrine applied by the California Supreme Court on the facts of the case. Accordingly, the true holding of *Lear* does not foreclose application of the doctrine to markedly different facts, including those here.

The doctrine that a patent licensee may not challenge the validity of the licensed patent was established in this country by the middle of the nineteenth century. *See Lear*, 395 U.S. at 662. In *Dale Tile Manufacturing Co.* v. *Hyatt*, 125 U.S. 46 (1888), for example, the Court held federal question jurisdiction was lacking where a licensee, who was sued for royalties under the license agreement, defended by challenging the patent. The Court explained that, in "this action to recover royalties due under the agreement, the defendant, *while continuing to enjoy the privileges of the license*, was estopped to deny the validity of the patent or of any reissue thereof." *Id.* at 54 (citing, *inter alia*, *Kinsman* v. *Parkhurst*, 59 U.S. (18 How.) 289 (1855)) (emphasis added).

The italicized portion of the Court's holding was integral to the doctrine of licensee estoppel that the Court described. The application of the doctrine as described in *Hyatt* depended on the fact that the licensee continued to enjoy the privileges of the license. The doctrine would not prevent a licensee who repudiated the licensing agreement from contesting the validity of the license in a suit by the licensor for future royalties or for infringement. Lower courts elaborated but did not extend the doctrine as described by the Court.

In *Universal Rim Co.* v. *Scott*, 21 F.2d 346 (D.N.D. Ohio 1922), for example, the district court considered whether, absent a provision permitting the license agree-

ment to be terminated, a licensee could contest the validity of patents covered by the agreement after renunciation and notice. *Id.* The court answered yes, stating that "the licensee, whenever he ascertains that the patents covered by the license agreement are invalid, may refuse to be further bound thereby, and, upon repudiation and notice, may thereafter defend against an action for royalties or an infringement suit as freely as may a stranger." *Id.* at 348-49.

The district court's holding reflected the "weight of authority" pre-*Lear* – "that the licensee may dispute the validity of the patent under which he is licensed after he has repudiated the license." *Crew* v. *Flanagan*, 242 Minn. 549, 558 (1954) (collecting cases).[4] Because the licensee in *Lear*

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[4] *Accord Martin* v. *New Trinidad Lake Asphalt Co.*, 255 F. 93, 94 (D.N.J. 1919) ("A licensee * * * may not set up the supposed invalidity of the patent * * * unless, prior to the period for which the royalties are sought to be recovered, he has given to the licensor a distinct, definite, and unequivocal notice to the effect that he no longer recognizes the binding force of the agreement.") (collecting cases); *Mudgett* v. *Thomas*, 55 F. 645, 649 (C.C. S.D. Ohio 1893) ("[D]efenses involving the validity of the patent will be available only for the period subsequent to the abandonment of the license by the defendants, and notice thereof to the plaintiffs."); *Marston* v. *Swett*, 82 N.Y. 526, 533 (1880) ("Where the patent is apparently valid and in force the party using it, receiving the benefit of its supposed validity, is liable for royalties agreed to be paid and cannot set up as a defense the actual invalidity of the patent. * * * If the manufacturer does not so intend, and chooses to make the patented article, not under the patent but in hostility to it, he must give notice of that intention, in order that the presumption may not attach or the patentee be misled.").

had repudiated the licensing agreement, the Court had no need to address the issue presented here.

B. *Lear* Needlessly Rejected Licensee Estoppel in the Case of a Nonrepudiating Licensee.

The Court decided *Lear* on the premise that, under the doctrine of licensee estoppel, a patent licensee could avoid estoppel only by terminating the agreement pursuant to its terms, and that committing a material breach, or otherwise repudiating the agreement, did not suffice. The Court therefore reasoned that, to allow licensees to avoid estoppel, it had to abolish the estoppel doctrine *in toto*. *Lear*, 395 U.S. at 663 n.10.

The Court's premise, however, appears to have been mistaken. The justification for licensee estoppel at common law was that "it would be unreasonable for a licensee to have the advantage of the patent in his commercial dealings with the world at large and repudiate it in his dealings with his licensor when it comes to paying royalties. He must take a stand which is consistent *for he cannot be allowed to affirm and disaffirm the patent at one and the same time.*" *Crew* v. *Flanagan*, 242 Minn. at 558 (emphasis added). *Accord Marston* v. *Swett*, 82 N.Y. at 533 ("The reasons for the rule are that the party has got what he bargained for; that he cannot be allowed at the same time to affirm and disaffirm the patent."). Thus, allowing a licensee to set up an invalidity defense upon repudiation of a licensing agreement would not, as the Court evidently supposed, undermine the vitality of the estoppel doctrine. *See Lear*, 395 U.S. at 663 n.10.

Because the facts of *Lear* did not require the Court to reject licensee estoppel, the Court's rejection of the doctrine is not binding authority. *See Kastigar* v. *United States*, 406 U.S. 441, 454-55 (1972) ("broad language * * * unnecessary to the Court's decision * * * cannot be considered binding authority"); *Cohens* v. *Virginia*, 19 U.S. (6

Wheat.) 264, 399-400 (1821) ("It is a maxim not to be disregarded, that general expressions, in every opinion, are to be taken in connection with the case in which those expressions are used. If they go beyond the case, they may be respected, but ought not to control the judgment in a subsequent suit when the very point is presented for decision.").

1. The cases cited by *Lear* do not undermine licensee estoppel.

The Court in *Lear* stated that *St. Paul Plow Works* v. *Starling*, 140 U.S. 184 (1891), undermined the common law doctrine of licensee estoppel. *See Lear*, 395 U.S. at 663. In *St. Paul*, however, the licensee had "renounce[d] its license" long before asserting the patents' invalidity. 140 U.S. at 186. For this reason, the lower court admitted invalidity evidence. Had it succeeded in proving invalidity, the licensee would have been relieved of the obligation to pay post-repudiation royalties. Thus, although inconsistent with the "strong-form" version of licensee estoppel that the Court necessarily rejected in *Lear*, *St. Paul* was consistent with the common law rule of licensee estoppel and the Federal Circuit's rule in this case.

In *Pope Manufacturing Co.* v. *Gormully*, 144 U.S. 224 (1892), the Court was troubled primarily by the fact that the licensing agreement purported to bind the licensee even in the event that the licensor's patent was eventually declared invalid. However, as the *Universal Rim* court explained, "[a] licensee, if evicted from the use of the patents by a judgment of a court of competent jurisdiction declaring the patents invalid, may, after giving notice to the licensor, defend against the payment of royalties subsequently accruing." 21 F.2d at 348. Under the common law rule of licensee estoppel, such "eviction" ended the estoppel. In short, the licensing agreement's infirmities in *Pope* were unrelated to any legitimate application of the licensee estoppel doctrine.

Nor did *Scott Paper Co.* v. *Marcalus Manufacturing Co.*, 326 U.S. 249 (1945), compel the Court's rejection of licensee estoppel. Although the Court found the doctrine of assignor estoppel "inconsistent with the patent laws" as applied to the facts of the case, *id.* at 257-58, it is unclear why licensee estoppel – a different doctrine developed for different reasons – was undermined by the limitation that the Court placed on assignor estoppel in that case. Further, the Court's concern in *Scott Paper* was with the patent assignee's attempt to recapture by private agreement an expired patent's monopoly. *Id.* at 256. Such was not the Court's concern in *Lear*.

Finally, the antitrust cases on which *Lear* relied did not compel the Court's rejection of licensee estoppel as traditionally applied. The Court stated that cases such as *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U.S. 173 (1942), were "antithetic to the principles underlying [licensee] estoppel," *Lear*, 395 U.S. at 666; but *Sola* and the other cases cited by the Court dealt with the effect of the validity of patents on price-fixing clauses in licensing agreements, a question unrelated to the doctrine of licensee estoppel. *Sola* and similar cases recognize that such licenses become *per se* illegal price-fixing agreements as a matter of *antitrust* law if the patent is invalid. These cases are simply exceptions to the antitrust law rule that price fixing is acceptable if contained in a patent license.

In sum, none of the cases that *Lear* relied on compelled rejection of the doctrine of licensee estoppel as traditionally applied. The antitrust exception cases were afield; *Scott Paper*, at most, expressed a federal policy in favor of encouraging validity challenges in a different context; and both *St. Paul* and *Pope* in fact were examples of the licensee estoppel doctrine at work.

2. *Lear* Properly Overruled *Hazeltine*.

In *Lear*, the Court stated that *Automatic Radio Manufacturing Co.* v. *Hazeltine Research, Inc.*, 339 U.S. 827

(1950), in which it had most recently applied the doctrine of licensee estoppel, "should no longer be regarded as sound law with respect to its 'estoppel' holding." 395 U.S. at 671. The Court properly overruled *Hazeltine* because the Court's holding in that case was inconsistent with its holding in *Lear*.

In *Hazeltine*, a licensor sought royalty payments under the terms of a licensing agreement that provided for royalty payments that would be required whether or not the licensed invention was used. *See* 339 U.S. at 829-30. The licensee defended, arguing that, "notwithstanding the licensing agreement, [it] may contest the validity of the patents it is charged with using." *Id.* at 836. However, the Court rejected this argument based on "[t]he general rule * * * that the licensee under a patent license agreement may not challenge the validity of the licensed patent in a suit for royalties due under the contract." *Id.*

The holding of *Hazeltine* was too broad a statement of the rule – broader than the holding of *Lear* itself. In *Lear*, the licensee had voluntarily relinquished its claim to the benefits of the licensing agreement before asserting the patent's invalidity. At the very least, the Court in *Hazeltine* applied estoppel to the licensee without regard to whether the licensee had repudiated the benefit of the license. Thus, *Hazeltine* was an application of the "strong form" licensee estoppel rejected in *Lear*.

C. *Lear* Should Be Limited To Similar Facts.

Lear was correctly decided because the "strong form" version of licensee estoppel endorsed by the California Supreme Court was inequitable and did not serve the purposes of the doctrine as traditionally understood. In support of its holding in *Lear*, the Court relied on federal policy in favor of encouraging patent validity challenges. *See* 395 U.S. at 670. The "strong form" version of licensee estoppel rejected in *Lear* indeed disserved this policy. Under that version of the doctrine, a licensee who became

convinced of the patent's invalidity would nevertheless – absent a valid termination – be unable to challenge the patent, even if he chose to repudiate the contract. Thus, the licensee could never, after signing the license and notwithstanding changed circumstances, opt out of the license and return to the position of a stranger to the patent. The Court correctly concluded that a rule, in effect requiring that licensees prospectively and irrevocably sign away their rights to challenge the validity of a licensed patent, is bad patent policy. *Lear* leveled the playing field by allowing a licensee who repudiates based on its belief that the patent is invalid (and thus that the license is unnecessary and improper) to assert the patent's invalidity as a defense in an action by the licensor.

The traditional doctrine of licensee estoppel, as opposed to the "strong form" version at issue in *Lear*, was equitable and well-supported. Traditional licensee estoppel imposes no irrevocable waiver of licensee challenges. Instead, the traditional doctrine simply requires licensees to choose between enjoying the benefits of the license and asserting the invalidity of the licensed patent. Under the doctrine, a licensee may choose either but not both, as the Federal Circuit properly refused to permit Petitioner to do here. Under the Federal Circuit's rule, the playing field remains level: a licensee may assert the invalidity of the licensor's patent, but only after forgoing the benefits that the patent license provides.

To be sure, encouraging patent invalidity challenges is a goal of federal patent law. But it is neither the only goal nor the overarching goal. "The stated objective of the Constitution in granting the power to Congress to legislate in the area of intellectual property is to 'promote the Progress of Science and useful Arts.'" *Kewanee Oil* v. *Bicron Corp.*, 416 U.S. 470, 480 (1974). Thus, for example, it is federal patent policy to reward inventors and to foster invention, including by encouraging the disclosure of inventions. *See id.* at 480-81; *see also Dawson Chem. Co.* v.

Rohm & Haas Co., 448 U.S. 176, 221 (1980) (discussing "the policy of stimulating invention that underlies the patent system"). As the Federal Circuit has explained, allowing licensees in good standing to challenge the patents under license "yields undesirable results" because it "discourages patentees from granting licenses." *Gen-Probe, Inc.* v. *Vysis*, 359 F.3d 1376, 1382 (Fed. Cir. 2004). Such a rule would skew federal patent policy away from its overarching goal of encouraging invention and innovation.

The policy of encouraging invalidity challenges does not require that non-repudiating licensees be allowed to challenge the validity of licensed patents. Other avenues for challenging patent validity are available. First, the patent might be challenged by a non-licensee. Second, Congress in 1981 created a mechanism that allows individuals to request that the Patent and Trademark Office reexamine a patent based on prior art. *See* 35 U.S.C. §§ 302, 311(b). Thus, it is now substantially easier and less expensive to challenge the validity of a patent than it was when *Lear* was decided. Compared with the competing goal of encouraging innovation, the policy in favor of encouraging validity challenges is less in need of protection now than it was when *Lear* was decided.

The Court stated in *Lear* that its task was to "balance the claims of promisor and promisee in accordance with the requirements of good faith." *See Lear*, 395 U.S. at 670. Applying *Lear* so broadly as to permit licensee challenges without repudiation would not balance the interests of licensees and licensors in accordance with the requirements of good faith. Doing so would permit licensees in effect to inoculate themselves against infringement actions, and then, having limited their downside risk, immediately to seek to avoid their obligations under the parties' agreement altogether. "In other words, in this situation, the licensor would bear all the risk, while the licensee would benefit from the license's effective cap on

damages or royalties in the event its challenge to the patent's scope or validity fails." *Gen-Probe*, 359 F.3d at 1382.

Equitable and policy considerations thus support recognition of the continued validity of "traditional" licensee estoppel as a matter of federal patent law – and reading *Lear* as limited to its core holding.[5] That is just what the Federal Circuit did in stating that a licensee "cannot invoke the protection of the *Lear* doctrine until it (i) actually ceases payment of royalties, and (ii) provides notice to the licensor that the reason for ceasing payment of royalties is because it has deemed the relevant claims to be invalid." *Studiengesellschaft Kohle, m.b.H.* v. *Shell Oil Co.*, 112 F.3d 1561, 1568 (Fed. Cir. 1997).[6]

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[5] The negative incentive effects of *Lear*'s holding are substantial, and counsel strongly in favor of limiting it to similar facts. *See* John W. Schlicher, *Judicial Regulation of Patent Licensing, Litigation and Settlement Under Judicial Policies Created in Lear v. Adkins*, AM. INTELL. PROP. L. ASS'N, SELECTED LEGAL PAPERS, Vol. III, No. 1 (June 1985). As this paper shows, *Lear*'s rule – especially in its strong form – is economically inefficient, decreasing the output of licensees and increasing the deadweight loss of monopoly. While the rule increases patent invalidity challenges, the economic benefits therefrom are more than outweighed by the increased costs of the rule, including costs associated with (1) increased litigation, (2) decreased licensee productivity, (3) decreased rate of inventing, and (4) inefficient exploitation of inventions. *Id.* at 8-13.

[6] Other circuits have reached similar conclusions. *See Rite-Nail Packaging Corp.* v. *Berryfast, Inc.*, 706 F.2d 933, 936-37 (9th Cir. 1983); *Hull* v. *Brunswick Corp.*, 704 F.2d 1195, 1203 (10th Cir. 1983); *Am. Sterilizer Co.* v. *Sybron Corp.*, 614 F.2d 890, 897-98 (3d Cir. 1980); *PPG Indus.*,

(continued...)

II. THIS CASE DOES NOT PRESENT A SUITABLE "CASE OR CONTROVERSY."

Lear did not address the question of jurisdiction under Article III or the Declaratory Judgment Act. As the Federal Circuit noted, "[i]n *Lear*, the licensee stopped paying royalties and the patentee sued for royalties; there was clearly a justiciable controversy, and that aspect was not an issue in *Lear*." Pet. App. 5. The Federal Circuit's conclusion that this case does not present an actual case or controversy is consistent with *Lear*.

In *Aetna Life Insurance Co.* v. *Haworth*, 300 U.S. 227 (1937), the Court first articulated the standards for a declaratory judgment action. The Court explained:

> The Declaratory Judgment Act of 1934, in its limitation to "cases of actual controversy," manifestly has regard to the constitutional provision and is operative only in respect to controversies which are such in the constitutional sense. The word "actual" is one of emphasis rather than of definition. Thus the operation of the Declaratory Judgment Act is procedural only. In providing remedies and defining procedure in relation to cases and controversies in the constitutional sense the Congress is acting within its delegated power over the jurisdiction of the federal courts which the Congress is authorized to establish.

Id. at 239-40. "The Declaratory Judgment Act allowed relief to be given by way of recognizing the plaintiff's right even though no immediate enforcement of it was asked."

Inc. v. *Westwood Chems., Inc.*, 530 F.2d 700, 706, 708 (6th Cir. 1976).

Skelly Oil Co. v. *Phillips Petroleum Co.*, 339 U.S. 667, 671-72 (1950).

Petitioner seeks vindication of a substantive right that, absent its repudiation of the license agreement, it does not actually have. If *Lear* stands only for the proposition that a *repudiating* licensee may assert invalidity as a defense to an infringement action or a suit to recover royalties, and a non-repudiating licensee such as Petitioner has no such right, then Petitioner's "claim" is "foreclosed under the applicable substantive law," *Wilton* v. *Seven Falls Co.*, 515 U.S. 277, 282-90 (1995) (citation omitted), and Petitioner may not assert invalidity. To allow licensees to assert offensively in a declaratory judgment action that which they could not assert defensively in an action for royalties would impermissibly expand licensees' substantive rights. This would directly violate the Court's statement that the operation of the Declaratory Judgment Act is "procedural only." *Aetna*, 300 U.S. at 240.

Contrary to Petitioner's claim, the Court did not previously "decide[ ] the same jurisdictional issue before this Court today," Pet. Br. 16, in *Altvater* v. *Freeman*, 319 U.S. 359 (1943). *Altvater* did not concern the right of a non-repudiating licensee to assert invalidity claims. In *Altvater*, the Court held that a licensee could assert a counterclaim seeking a declaration relating to the validity of certain reissue patents. *See* 319 U.S. at 365-66. However, the reason the Court allowed the counterclaim was that the licensee was only paying the royalties "under compulsion of an injunction" from a prior case. *Id.* at 365. Indeed, the Court noted that the lower courts had found "that *the license agreement was terminated* on the surrender of the original patent and was not renewed and extended to cover the reissue patents." *Id.* at 364 (emphasis added). Therefore, it is clear that the licensee's obligation to continue paying royalties did not stem from the licensing agreement but from the injunction. As the Court made

clear, "[a] controversy was raging, even apart from the continued existence of the license agreement." *Id.* Thus, the Court's decision in *Altvater* did not touch on the question presented in this case; a question which the *Altvater* Court explicitly "put to one side" and declined to answer. *See id.*

Petitioner is invoking the Declaratory Judgment Act not to obtain an interpretation of the license agreement's terms, but to obtain advice about its potential legal exposure if it should repudiate the agreement and yet continue to practice the invention. That, however, is exactly the sort of question that private parties face all the time and for which they seek the advice of counsel. As the Eleventh Circuit has explained:

> Persons occupying positions of responsibility * * * often must make difficult decisions that can have adverse consequences for others. * * * Needless to say, the decisionmakers would benefit greatly by having guidance as to the potential legal ramifications of their decisions. Furnishing such guidance prior to the making of the decision, however, is the role of counsel, not of the courts.

Hendrix v. *Poonai*, 662 F.2d 719, 722 (11th Cir. 1981). For this reason, even if this case were thought to satisfy Article III, as implemented by the Declaratory Judgment Act, it would not be suitable for adjudication.

Harris Trust and Savings Bank v. *E-II Holdings, Inc.*, 926 F.2d 636 (7th Cir. 1991), is instructive. In that case, the trustee plaintiffs sought a declaration as to whether the appellee, a party to the indenture agreement at issue, was in default of that agreement. However, the district court held that it lacked Article III jurisdiction because the trustees "declined to declare an event of default under the terms of the Indentures," as they were free to do, and instead asked the court to determine whether a default had occurred. 722 F. Supp. 429, 441 (N.D. Ill. 1989). The

district court held that, because the trustees, "in effect, at all times ha[d] the power to create a controversy, but they ha[d] not yet done so," no actual controversy existed. *Id.*

The equities in favor of finding an actual controversy in *Harris Trust* arguably were substantial. As the Seventh Circuit explained, the decision whether to declare an event of default, if incorrect, likely would have exposed the trustees to suit. *See Harris Trust*, 926 F.2d at 638. Nevertheless, the court held that unless and until the trustees declared an event of default, the court lacked subject matter jurisdiction over the question. *See id.* at 640 ("the Trustees have declined to express an opinion on the merits[;] * * * that failure evidences the lack of a case or controversy").

Petitioner has the power to create an actual controversy but has not done so. In the same way that the trustees' failure to declare an event of default under the parties' agreement prevented the court from exercising its jurisdiction, the Petitioner's failure to repudiate its license prevents the federal courts from hearing this case. Of course, if Petitioner is wrong and Respondents' patent is valid, Petitioner would then be subject to an infringement suit (or a suit for royalties), but in this respect Petitioner is in the same position as the trustees in *Harris Trust*, who similarly would have faced substantial litigation exposure if they made the wrong choice. The mere fact that a party faces a difficult business decision does not confer jurisdiction on the federal courts. *See, e.g.*, *Crowley Co.* v. *United States*, 849 F.2d 273, 276 (7th Cir. 1988) ("You cannot go to a federal court for advice on the legality of a proposed course of action.").

III. THE FEDERAL CIRCUIT'S RULE FURTHERS THE AIMS OF THE DECLARATORY JUDGMENT ACT AND PATENT POLICY.

From the earliest days of the Declaratory Judgment Act, the Court has consistently affirmed that federal courts are "under no compulsion to exercise th[eir] jurisdiction" in declaratory judgment actions. *Brillhart* v. *Excess Ins. Co.*, 316 U.S. 491, 494 (1942). Rather, through the Declaratory Judgment Act,

> Congress sought to place a remedial arrow in the district court's quiver; it created an opportunity, rather than a duty, to grant a new form of relief to qualifying litigants. Consistent with the nonobligatory nature of the remedy, a district court is authorized, in the sound exercise of its discretion, to stay or to dismiss an action seeking a declaratory judgment before trial or after all arguments have drawn to a close. * * * In the declaratory judgment context, the normal principle that federal courts should adjudicate claims within their jurisdiction yields to considerations of practicality and wise judicial administration.

Wilton, 515 U.S. at 288 (footnote omitted).

In the words of the Federal Circuit, the purpose of the Declaratory Judgment Act is to

> enable a person who is reasonably at legal risk because of an unresolved dispute, to obtain judicial resolution of that dispute without having to await the commencement of legal action by the other side. It accommodates the practical situation wherein the interests of one side to the dispute may be served by delay in taking legal action.

BP Chems. Ltd. v. *Union Carbide Corp.*, 4 F.3d 975, 977 (Fed. Cir. 1993).

By entering into licensing agreements, licensors give up a number of important rights, including the right to exclude the licensee from using the claimed invention and, in the case of use, to sue for treble damages, among other things. If the licensee is nevertheless allowed to seek to invalidate the patent, then the licensee has effectively given up nothing. Under this regime, "the licensor would bear all the risk, while licensee would benefit from the license's effective cap on damages or royalties in the event its challenge to the patent's scope or validity fails." *Gen-Probe*, 359 F.3d at 1382. Therefore, to allow the licensee to sue the licensor, even while retaining the protection of the license, would undermine rather than serve the principle of equality that underlies the Declaratory Judgment Act.

"The factors relevant to wise administration here are equitable in nature." *Kerotest Mfg. Co.* v. *C-O-Two Fire Equip. Co.*, 342 U.S. 180, 183 (1952). Those factors here militate in favor of declining jurisdiction even if Article III and the Act permit a federal court to exercise jurisdiction. *See, e.g.*, *Wilton*, 515 U.S. at 288; *Hewitt* v. *Helms*, 482 U.S. 755, 762-63 (1987); *Pub. Affairs Assocs., Inc.* v. *Rickover*, 369 U.S. 111, 112 (1962); *Brillhart*, 316 U.S. at 494 (Frankfurter, J.); *Great Lakes Dredge & Dock Co.* v. *Huffman*, 319 U.S. 293, 300 (1943) (Stone, C.J.). Accordingly, the Court could affirm the Federal Circuit's judgment on equitable and prudential grounds and leave the Article III question to the future. *See Elk Grove Unified Sch. Dist.* v. *Newdow*, 542 U.S. 1, 11-18 (2004) (reversing for lack of prudential standing and avoiding Article III issue on which review had been granted); *see generally J. E. Riley Inv. Co.* v. *Comm'r*, 311 U.S. 55, 59 (1940) ("Where the decision below is correct it must be affirmed by the appellate court though the lower tribunal gave a wrong reason for its action."); *Chevron U.S.A., Inc.* v. *NRDC, Inc.*, 467 U.S. 837, 842 (1984) ("this Court reviews judgments, not opinions").

CONCLUSION

For the foregoing reasons, the judgment should be affirmed.

Respectfully submitted,

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